

# KENTUCKY ECONOMIC INDICATORS

August 2008 as of October 31, 2008

## **KY Composite Index of Leading Indicators decreased by 9.7 percent in August.**

- The Leading Index has decreased for the fourth time in 2008.
- The month-over-same-month-last-year growth rate declined for the ninth consecutive month with -1.9 percent.
- For the second time this year, all five component indicators were negative, 0:5.
  - KY Labor Intensity Index decreased 5.0 percent.
  - KY Index of Initial UI Claims decreased by 8.6 percent.
  - US Retail Sales decreased by 5.2 percent.
  - US Manufacturer's New Orders Index decreased by 43.5 percent.
  - The Louisville Help Wanted Index decreased by two points to 11.

*Component weights for August are 68.2, 13.4, 12.1, 5.0 and 1.2 respectively.*

## **KY Composite Index of Coincident Indicators decreased by 4.6 percent in August.**

- The Coincident Index growth is negative for the sixth time in 2008.
- The month-over-same-month-last-year growth rate is negative for the first time in sixty months at -0.4 percent.
- Component indicators leaned negative, 1:2.
  - KY Non-farm Employment decreased 4.5 percent.
  - US Industrial Production Index decreased 11.0 percent.
  - + US Personal Income Less Transfers increased 3.2 percent.

*Component weights for August are 38.4, 30.0 and 18.8 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.*

The Kentucky Leading Index decreased sharply for August 2008. This is the thirteenth consecutive month that the growth rate for the Leading Index has alternated signs. The negatives strongly outweigh the positives however, creating a strongly decreasing series overall. The most recent peak of the Kentucky Leading Index occurred in January 2006 at 113.8. The total net loss since that peak is 3.2 points, a 2.8 percent decline. The most recent trio of signs, indicating a turning point in the reference series, occurred from June to August 2007. This trio of negative growth rates signals the beginning of the current contraction period, which would occur six to twelve months from August 2007. All five component indicators were negative for this August. This is the second time this year [February 2008] that all five component indicators were negative.

As one can see from the component weights, it is unusual to see a single strong movement like -5.0 percent for the Kentucky Labor Intensity Index. It is extremely unusual for there to be three consecutive large changes like the ones in June, July and August 2008. Employment in Transportation Equipment is the primary force underlying the recent volatility in the Labor Intensity Index. In August, Transportation Equipment employment dropped by 5,500 (-9.8 percent) seasonally adjusted jobs, as reported by the Bureau of Labor Statistics. In July, Transportation Equipment employment increased by 6,200, (12.5 percent) seasonally adjusted jobs. As stated in last month's report, the timing of seasonal layoffs this year is markedly different than in the last five years. The pattern over the last five years has shown lower than usual July (manufacturing) employment while August showed higher than usual employment. This was due to the fact that many Transportation Equipment firms enacted earlier seasonal shutdown practices relative to the survey dates than usual. This year, July is showing much higher than normal (+12.5 percent) growth and August is showing much lower than normal growth. The seasonal factors have not been changed, but the timing of the layoffs relative to the survey dates has flip-flopped. The net effect from May to August 2008 seems to be a moderate to small decline in the Labor Intensity Index, which is consistent with the broader labor market data.

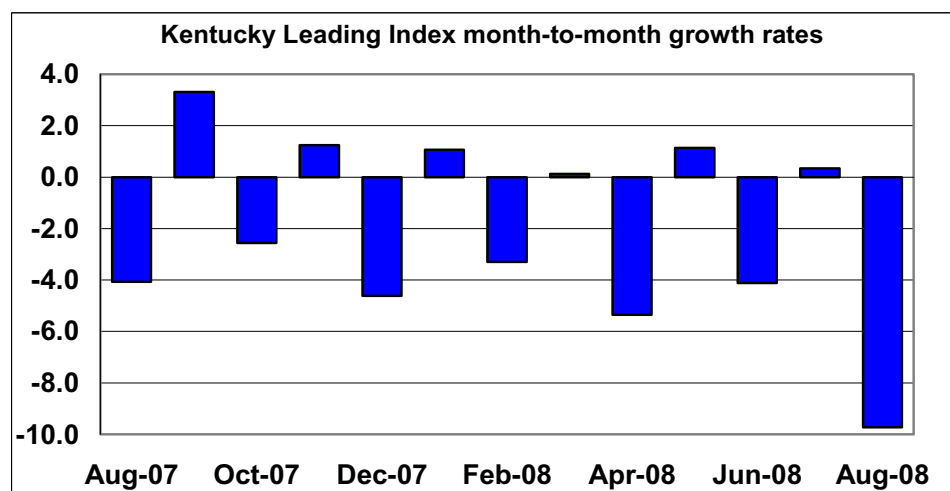
Petroleum, Coal, Plastics and Rubber Products employment declined by 300 (-1.4 percent) seasonally adjusted jobs in August. While not an exceptional decline, it contributed to the sharp decline in the overall Labor Intensity Index and also to the Leading Index. The other three employment sectors and all five average weekly hours series in the Labor Intensity Index changed by insignificant amounts.

The Kentucky Index of UI Claims declined by 8.6 percent for August. This is the first time the series has dipped below 100 since July 2003. The change-over-same-month-last-year growth rate has been negative for nine consecutive months, indicating a trended decline. Moreover, there have been four double-digit month-to-month declines in the last 12 months. For August, both the Kentucky and US components of the Index rose in moderate amounts, causing the Kentucky UI Index to decline moderately. Kentucky First Pays increased by 599 seasonally adjusted claims (6.7 percent), while US Initial Claims increased by 20,000 seasonally adjusted jobs (4.7 percent).

US Manufacturer's New Orders Index declined by 43.5 percent for August. This is the sharpest single month drop in the New Orders Index since September 2001 (-48.2 percent), which was incidentally the start of the contraction period in the 2001 recession. The New Orders Index has declined in seven of the last eight months in 2008. Because the series is historically so volatile, this series has a small weight, 5.0 percent, in the Kentucky Leading Index. US Retail Sales declined for the second consecutive month with a 5.2 percent decline. US Retail Sales, which are notoriously recession resistant, have declined five times in the last 12 months. They are up only 1.5 percent over August 2007.

Kentucky manufacturing employment has taken on some of the volatility inherent in the underlying data. In the last three months alone, Kentucky manufacturing employment has fallen by 6,400 seasonally adjusted jobs. In contrast, seasonally adjusted total non-farm employment has fallen only 1,700 jobs over the same period. Regardless of the measure chosen, the Kentucky labor market is appreciably soft. A higher unemployment rate and higher UI claims appear inevitable.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



### About the Indicators

#### Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted General Fund tax receipts are combined to form the GOEA composite reference series.

#### Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: lumber products; chemical and allied products; petroleum, coal, rubber and plastic products; fabricated metals; and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **U.S. Retail Sales:** Inflection points used to determine turning points.
- **U.S. Manufacturer's New Orders Index:** This index has two components: U.S. Manufacturer's New Orders for Nondefense Capital Goods and U.S. Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

#### Notes:

- Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- More information is available on our website, <http://www.osbd.ky.gov/>.

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**SELECTED KENTUCKY ECONOMIC INDICATORS**  
**SEASONALLY ADJUSTED**

	2007					2008							
	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
KY Leading Index (1992=100)	112.8	113.1	112.9	113.0	112.6	112.7	112.3	112.4	111.8	111.9	111.5	111.6	110.6
% Chg Previous Month SAAR	-4.1	3.3	-2.6	1.2	-4.6	1.1	-3.3	0.1	-5.4	1.1	-4.1	0.3	-9.7
% Chg Same Month Last Year	-0.1	0.0	0.0	0.1	-1.0	-0.4	-0.6	-1.2	-1.2	-1.4	-1.5	-1.4	-1.9
KY Leading Index Diffusion Index	56.7	60.0	60.0	56.7	56.7	60.0	60.0	53.3	53.3	53.3	53.3	46.7	46.7
KY Coincident Index (1992=100)	136.0	136.2	136.1	136.4	136.5	136.5	136.3	136.3	136.0	135.9	135.8	135.9	135.4
% Chg Previous Month SAAR	0.5	1.9	-0.4	2.1	0.7	0.2	-1.3	-0.5	-2.7	-0.5	-1.2	1.5	-4.6
% Chg Same Month Last Year	1.7	1.8	1.6	1.7	1.3	1.4	1.0	0.9	0.5	0.4	0.1	0.0	-0.4
KY Non-farm Employment (000s)	1,868.4	1,870.8	1,874.5	1,877.9	1,880.0	1,881.5	1,880.5	1,881.6	1,878.5	1,879.1	1,875.8	1,884.6	1,877.4
% Chg Previous Month SAAR	-0.6	1.6	2.4	2.2	1.4	1.0	-0.6	0.7	-2.0	0.4	-2.1	5.8	-4.5
% Chg Same Month Last Year	1.1	1.2	1.5	1.5	1.0	1.2	1.2	1.0	0.8	0.5	0.3	0.8	0.5
KY Private Services Employment (000s)	1,182.5	1,183.0	1,185.7	1,186.9	1,188.4	1,194.5	1,193.7	1,190.8	1,189.4	1,184.9	1,183.8	1,188.5	1,188.3
% Chg Previous Month SAAR	1.0	0.5	2.8	1.3	1.5	6.3	-0.8	-2.9	-1.4	-4.4	-1.1	4.9	-0.2
% Chg Same Month Last Year	1.9	1.6	1.7	1.5	1.2	1.6	1.7	1.1	1.1	0.2	0.0	0.6	0.5
KY Mfg Employment (000s)	252.8	254.8	253.9	253.1	250.7	250.6	250.4	253.3	250.7	251.8	247.9	252.3	245.4
% Chg Previous Month SAAR	-15.2	9.9	-4.2	-3.7	-10.8	-0.5	-1.0	14.8	-11.6	5.4	-17.1	23.5	-28.3
% Chg Same Month Last Year	-3.4	-2.3	-0.9	-0.9	-3.3	-3.2	-3.3	-0.8	-2.8	-2.3	-4.0	-1.6	-2.9
KY Unemployment Rate (%)	5.5	5.4	5.4	5.1	5.3	5.2	5.3	5.7	5.6	6.2	6.3	6.7	6.8
KY Index of Initial UI Claims (1992=100)	103.4	103.9	101.4	102.9	101.4	102.9	102.2	101.0	100.9	101.3	100.2	100.1	99.3
% Chg Previous Month SAAR	-5.8	5.0	-25.0	19.3	-16.4	19.8	-7.7	-13.1	-2.1	5.9	-12.5	-1.6	-8.6
% Chg Same Month Last Year	1.0	1.1	-1.7	0.2	-2.1	-0.7	-0.5	-2.6	-2.2	-2.4	-3.4	-3.7	-4.0
KY Labor Intensity Index (1992=100)	104.5	104.6	104.8	104.9	104.5	104.6	104.5	104.5	104.4	104.4	104.1	104.5	104.1
% Chg Previous Month SAAR	-1.4	0.7	3.0	0.3	-3.6	0.5	-0.7	-0.1	-0.9	0.0	-4.3	5.6	-5.0
% Chg Same Month Last Year	-0.2	-0.2	0.4	0.4	-0.1	0.0	-0.1	0.0	-0.2	-0.3	-0.6	-0.1	-0.4
Louisville HWI (1992=100)	22.0	23.0	23.0	19.0	20.0	19.0	18.0	20.0	15.0	15.0	15.0	13.0	11.0
% Chg Previous Month SAAR	-41.3	70.5	0.0	-89.9	85.1	-46.0	-47.7	254.1	-96.8	0.0	0.0	-82.0	-86.5
% Chg Same Month Last Year	-31.3	-34.3	-36.1	-50.0	-52.4	-45.7	-41.9	-53.5	-48.3	-50.0	-46.4	-43.5	-50.0
GF Total Tax Receipts (\$ mill)	566.5	822.3	639.4	624.7	822.3	724.3	564.7	610.5	922.7	610.3	813.5	619.9	614.5
% Chg Same Month Last Year	2.4	-1.5	1.5	-1.0	-6.7	6.1	3.8	-6.5	37.3	-22.2	3.2	1.9	8.5
GF Sales & Use Receipts (\$ mill)	241.8	235.5	246.7	236.1	235.2	296.7	205.5	209.6	232.4	238.4	249.0	266.1	251.7
% Chg Same Month Last Year	4.9	5.1	1.7	5.5	-1.5	3.7	6.2	-1.4	14.8	-12.0	2.5	6.0	4.1
GF Income Tax Receipts (\$ mill)	240.6	332.9	265.6	236.9	295.4	272.7	235.0	193.6	544.3	261.6	355.3	262.2	270.9
% Chg Same Month Last Year	5.8	18.1	6.9	-2.3	9.7	34.9	3.5	-5.1	92.1	-22.6	22.9	5.2	12.6

# SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

2007

2008

	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
US Leading Index (2004=100)	103.6	103.7	103.2	102.8	102.6	102.1	101.9	101.9	102.0	101.9	101.9	101.2	100.3
% Chg Previous Month SAAR	-10.9	1.2	-5.6	-4.6	-2.3	-5.7	-2.3	0.0	1.2	-1.2	0.0	-7.9	-10.2
% Chg Same Month Last Year	0.3	0.0	-0.7	-1.0	-1.7	-1.8	-1.7	-2.1	-1.8	-2.0	-1.9	-3.3	-3.2
US Coincident Index (1996=100)	107.1	107.2	107.3	107.2	107.2	107.2	106.9	106.9	106.9	106.8	106.7	106.5	106.5
% Chg Previous Month SAAR	2.3	1.1	1.1	-1.1	0.0	0.0	-3.3	0.0	0.0	-1.1	-1.1	-2.2	0.0
% Chg Same Month Last Year	1.9	1.9	1.6	1.5	1.1	1.2	0.8	0.6	0.5	0.3	0.1	-0.4	-0.6
US Non-farm Employment (Mil.)	137.8	137.8	138.0	138.0	138.1	138.0	137.9	137.8	137.8	137.7	137.6	137.6	137.5
% Chg Previous Month SAAR	0.6	0.7	1.2	0.5	0.4	-0.7	-0.7	-0.8	-0.6	-0.4	-0.9	-0.6	-0.6
% Chg Same Month Last Year	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.4	0.3	0.1	0.0	-0.1	-0.2
US Service-Providing Employment (Mil.)	115.6	115.7	115.9	116.0	116.1	116.1	116.1	116.1	116.1	116.1	116.1	116.1	116.1
% Chg Previous Month SAAR	1.5	1.2	1.9	1.2	1.2	-0.1	0.1	-0.1	0.4	0.0	-0.1	-0.1	-0.2
% Chg Same Month Last Year	1.6	1.5	1.6	1.4	1.4	1.3	1.1	1.0	0.9	0.8	0.7	0.6	0.4
US Manufacturing Employment (000s)	13,844.0	13,822.0	13,797.0	13,794.0	13,772.0	13,737.0	13,690.0	13,644.0	13,592.0	13,571.0	13,527.0	13,487.0	13,431.0
% Chg Previous Month SAAR	-3.4	-1.9	-2.1	-0.3	-1.9	-3.0	-4.0	-4.0	-4.5	-1.8	-3.8	-3.5	-4.9
% Chg Same Month Last Year	-2.2	-2.2	-2.1	-1.9	-1.9	-2.0	-2.1	-2.2	-2.4	-2.4	-2.6	-2.9	-3.0
US Unemployment Rate (%)	4.7	4.7	4.8	4.7	5.0	4.9	4.8	5.1	5.0	5.5	5.5	5.7	6.1
US Manufacturer's New Orders Index (1996=100)	130.2	129.5	129.7	129.5	130.5	126.8	125.9	125.4	123.5	122.1	122.6	122.4	116.7
% Chg Previous Month SAAR	-32.1	-6.3	2.1	-2.6	9.8	-28.9	-8.4	-4.5	-16.6	-13.5	5.6	-1.9	-43.5
% Chg Same Month Last Year	-0.2	-3.8	-0.8	-1.5	-2.5	-1.1	-2.9	-4.9	-7.0	-6.7	-6.4	-9.0	-10.4
US Initial Claims for UI (000s)	325.3	318.4	330.0	340.1	344.6	339.2	346.0	374.8	367.3	369.0	390.5	420.1	439.9
% Chg Previous Month SAAR	88.2	-22.7	53.6	43.6	17.1	-17.3	26.9	161.0	-21.5	5.7	97.3	140.3	73.8
% Chg Same Month Last Year	2.7	-0.3	4.4	3.7	7.5	7.7	6.5	20.4	14.3	19.6	22.6	36.1	35.2
US Industrial Production Index (1992=100)	112.0	112.3	111.8	112.3	112.4	112.6	112.3	112.0	111.4	111.3	111.5	111.4	110.4
% Chg Previous Month SAAR	-0.3	3.1	-4.5	5.2	1.0	2.0	-3.3	-2.5	-6.1	-1.5	1.7	-0.2	-11.0
% Chg Same Month Last Year	1.6	2.2	1.9	2.5	2.0	2.5	1.6	1.5	0.4	0.3	0.1	-0.5	-1.4
US Personal Income Less Trans. (Bil. 2000 chnd)	8,490.4	8,504.5	8,507.5	8,498.9	8,495.0	8,466.1	8,464.9	8,465.1	8,460.5	8,452.6	8,417.6	8,394.6	8,416.6
% Chg Previous Month SAAR	4.4	2.0	0.4	-1.2	-0.5	-4.0	-0.2	0.0	-0.7	-1.1	-4.9	-3.2	3.2
% Chg Same Month Last Year	4.1	3.4	2.3	1.8	1.4	1.0	0.5	0.3	0.4	0.4	-0.2	-0.8	-0.9
CPI, All Urban (1982-84=100)	207.7	208.5	209.1	210.9	211.7	212.5	212.6	213.3	213.7	215.1	217.4	219.2	218.9
% Chg Previous Month SAAR	0.2	4.5	3.2	11.3	4.4	4.8	0.3	4.2	2.5	8.1	13.4	10.3	-1.6
% Chg Same Month Last Year	1.9	2.8	3.5	4.4	4.1	4.4	4.1	4.0	3.9	4.1	4.9	5.5	5.4
US Retail Sales (\$Billions)	374.3	379.4	376.8	381.3	377.9	380.0	378.1	380.0	380.8	383.8	384.1	381.6	379.9
% Chg Previous Month SAAR	-0.1	17.7	-7.8	15.2	-10.1	6.9	-5.9	6.2	2.5	9.8	0.9	-7.5	-5.2
% Chg Same Month Last Year	3.4	5.6	4.8	5.8	3.4	3.9	2.7	2.3	2.8	2.0	3.1	2.0	1.5
US Consumer Expectations (1966=100)	73.7	74.1	70.1	66.2	65.6	68.1	62.4	60.1	53.3	51.1	49.2	53.5	57.9
% Chg Previous Month AR	-70.1	6.7	-48.6	-49.7	-10.4	56.6	-65.0	-36.3	-76.3	-39.7	-36.5	173.3	158.2
% Chg Same Month Last Year	8.4	-5.2	-17.3	-20.4	-19.2	-22.3	-23.4	-23.6	-29.8	-34.1	-34.1	-34.4	-21.4
Ave. Prime Interest Rate (% NSA)	8.25	8.03	7.74	7.50	7.33	6.98	6.00	5.66	5.24	5.00	5.00	5.00	5.00